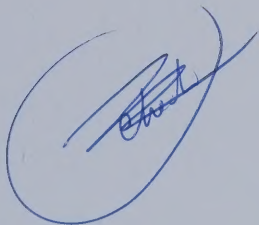


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ANNUAL REPORT 1967



Fairbanks Morse (Canada) Ltd.

Kingston, Ontario, Canada

FAIRBANKS MORSE (CANADA) LTD.

TO THE SHAREHOLDERS:

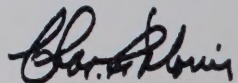
Despite increased sales, 1967 was a disappointing year. Sales were \$6,859,484, compared with \$6,014,904 a year earlier. However, the company experienced a net loss of \$410,265 as compared with a 1966 profit of \$351,619 largely due to the losses incurred in unanticipated increased costs of engineering and manufacturing on a contract to supply locomotives for India.

The locomotives shipped under the contract met high standards and can be counted on to establish outstanding performance records. Furthermore, management expects that the design could open new markets that will provide an increasingly strong locomotive business, with particular emphasis on exports.

As of June 30, 1967, the company acquired the marine diesel engine business of Robert Morse Corporation Ltd. and the outstanding shares of its subsidiary, Dynamic Engineering Ltd. The acquisition brought into your company new engineering and marketing personnel with valuable experience and competence in this field.

The company's consolidated order backlog at year-end 1967 was \$6,592,000 compared with \$3,655,000 on December 31, 1966.

I was elected to the presidency of the company at the mid-point of the difficult year just passed. Since then, the company has undertaken a series of moves to strengthen its operations and to adapt them to the opportunities we see in Canada's future.



President

May 22, 1968
Kingston, Ontario

FAIRBANKS MORSE (CANADA) LTD.

NOTES TO FINANCIAL STATEMENTS

December 31, 1967

1. ACQUISITION

As of June 30, 1967, the Company purchased the marine diesel engine business of Robert Morse Corporation Ltd. and the outstanding shares of its subsidiary, Dynamic Engineering Ltd. The assets and liabilities of this business and of the subsidiary and their operating results for the six months ended December 31, 1967, are included in the accompanying financial statements.

2. CONTRACT ACCOUNTING

Major contracts may extend over a period longer than one year. Income from contracts is reported on the percentage-of-completion basis.

3. PROGRAM FOR REORGANIZATION AND REHABILITATION OF MANUFACTURING FACILITIES

Additions to plant and equipment made in 1967 in connection with the program were capitalized as Plant and Equipment. Other costs, \$46,107, incurred in 1967 in connection with reorganization and rehabilitation of facilities were charged against the provision. Being no longer required, the balance of the provision, \$417,268, has been returned to Earned Surplus.

4. BANK LOAN

The bank loan is secured by a general assignment of accounts receivable, inventories, and of proceeds of certain insurance policies.

5. REMUNERATION OF DIRECTORS

Remuneration of Directors and Senior Officers includes amounts paid to Directors, as directors and officers, of \$46,289 in 1967 and \$42,700 in 1966.

AUDITORS' REPORT

To the Shareholders,

Fairbanks Morse (Canada) Ltd.:

We have examined the balance sheets of FAIRBANKS MORSE (CANADA) LTD. (a Canada corporation) as of December 31, 1967 and 1966, and the related income summaries and statements of source and application of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets present fairly the financial position of Fairbanks Morse (Canada) Ltd. as of December 31, 1967 and 1966, and the related income summaries and statements of source and application of funds fairly summarize income (loss) and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the years.

ARTHUR ANDERSEN & CO.

Montreal, Québec.
February 9, 1968.

FAIRBANKS MORSE (CANADA) LTD.

BALANCE SHEETS — DECEMBER 31, 1967 AND 1966

A S S E T S

CURRENT ASSETS:	1967	1966
Cash	\$ 211,430	\$ 166,283
Short-term investments, at cost	—	1,001,936
Accounts receivable	1,132,623	1,702,089
Costs of uncompleted contracts, less related progress payments of \$3,053,775	290,483	—
Inventories, at the lower of cost (first-in, first-out) or market,		
Finished goods	825,195	468,533
Work in process	1,762,865	931,071
Raw materials	589,000	473,762
	<u>3,177,060</u>	<u>1,873,366</u>
Advances on contracts	369,395	—
Prepaid expenses	116,980	23,563
Total current assets	5,297,971	4,767,237
PLANT AND EQUIPMENT, at cost	4,003,756	3,823,479
Less: Accumulated depreciation	2,947,562	2,879,589
	<u>1,056,194</u>	<u>943,890</u>
PATENTS	1	1
	<u>\$ 6,354,166</u>	<u>\$ 5,711,128</u>

L I A B I L I T I E S

CURRENT LIABILITIES:	1967	1966
Bank loan	\$ 750,000	\$ —
Accounts payable and accrued liabilities	707,834	417,853
Accrued taxes	31,797	31,501
Payable to affiliated companies (U.S. \$330,225 in 1967 and U.S. \$140,997 in 1966)	356,643	152,699
Customers' advances	905,566	1,786,517
Progress payments on uncompleted contracts, less related costs of \$66,229	736,140	—
Total current liabilities	3,487,980	2,388,570
PROVISION FOR ESTIMATED COSTS OF PROGRAM FOR REORGANIZATION AND REHABILITATION OF MANUFACTURING FACILITIES	—	463,375
CAPITAL STOCK AND EARNED SURPLUS (DEFICIT):		
Capital stock — common shares, without nominal or par value, authorized and issued, 250,000 shares	3,629,261	3,629,261
Earned surplus (deficit) —		
Balance, beginning of year	(770,078)	(1,121,697)
Net income (loss) for the year	(410,265)	351,619
Reversal of Provision for Estimated Costs of Program for Reorganization and Rehabilitation of Manufacturing Facilities	417,268	—
Balance, end of year	<u>(763,075)</u>	<u>(770,078)</u>
	<u>2,866,186</u>	<u>2,859,183</u>
	<u>\$ 6,354,166</u>	<u>\$ 5,711,128</u>

See accompanying notes to financial statements.

Approved on behalf of the Board: CHAS. F. MORRIS, Director.
J. A. BERGENDAHL, Director.

FAIRBANKS MORSE (CANADA) LTD.

INCOME SUMMARIES

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
NET SALES	\$ 6,859,484	\$6,014,904
INCOME (LOSS) BEFORE THE FOLLOWING CHARGES	(226,722)	513,908
Depreciation	73,993	60,962
Remuneration of Directors and Senior Officers	109,550	101,327
	183,543	162,289
Income (loss) before income taxes	(410,265)	351,619
INCOME TAXES APPLICABLE TO ABOVE INCOME	—	173,000
Income (loss) before special item	(410,265)	178,619
SPECIAL ITEM — Elimination of income taxes due to carry-forward of prior years' losses	—	173,000
Net income (loss) for the year	\$(410,265)	\$ 351,619

See accompanying notes to financial statements.

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
WORKING CAPITAL, beginning of year	\$ 2,378,667	\$2,127,527
SOURCE OF FUNDS:		
Funds derived from operations —		
Net income (loss) for the year	(410,265)	351,619
Depreciation	73,993	60,962
	2,042,395	2,540,108
APPLICATION OF FUNDS:		
Purchase of plant and equipment	186,297	161,441
Expenditures charged to Provision for Estimated Costs of Program for Reorganization and Rehabilitation of Manufacturing Facilities	46,107	—
	232,404	161,441
WORKING CAPITAL, end of year	\$ 1,809,991	\$2,378,667

See accompanying notes to financial statements.

FAIRBANKS MORSE (CANADA) LTD.

DIRECTORS:

L. P. BEAULIEU

W. D. FORD

J. A. BERGENDAHL

D. I. MARGOLIS

J. C. CAMERON

CHAS. F. MORRIS

BLAIR BOLLES

D. C. SCOTT

G. A. STRICHMAN

OFFICERS:

L. P. BEAULIEU, Chairman of the Board

CHAS. F. MORRIS, President & Chief Executive Officer

J. A. BERGENDAHL, Vice-President — Manufacturing

J. W. HARRIS, Vice-President — Treasurer

E. M. GILMORE, Secretary

TRANSFER AGENT AND REGISTRAR:

NATIONAL TRUST COMPANY LIMITED

Toronto, Ontario

Montreal, Québec

AUDITORS:

ARTHUR ANDERSEN & Co., CHARTERED ACCOUNTANTS